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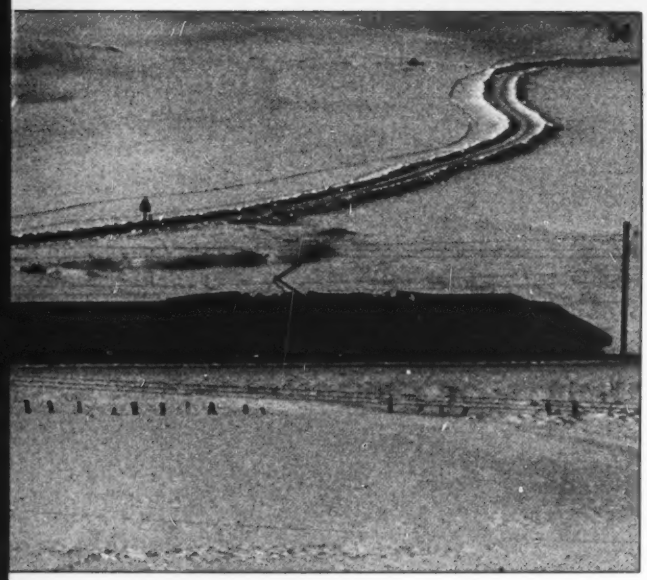

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tomated to increase productivity, not much additional improvement is possible by measuring employee performance. The computer equipment installed to run operations produces the lion's share of any productivity gains, agrees Mitchell Goldstein, office automation consultant at Environetics International, yet the monitoring is frequently mistakenly used to justify the whole expenditure.

Sears, Roebuck & Co., for one, believes the costs in employee morale outweigh the productivity gains in most cases. Therefore, it monitors each call in its catalog sales division for everything except employee performance. According to George Eaton, director of catalog sales, Sears uses individual employee performance reports only to identify personnel that need help and to tally performance on sales promotions. "It really boosts morale to have a contest based on sales per call," he says.

The key to effective monitoring, experts agree, is to convince employees that the measurement system is fair and can't be subverted. American Express, for one, uses outside consultants to make sure its expectations are not unrealistically high or low. "Management must be careful not to push either side [production or quality] too hard," Sherin says.

American Express also has used quality circles to involve employees in setting quality standards in order to gain their acceptance. Such employee cooperation is critical, says Frederick Herzberg, "because while speed is under the control of the system, quality is under the control of the worker."

With employee support, Carl Thor adds, service industries should be able to avoid the loss of competitiveness suffered by manufacturing companies in sacrificing quality to quantity. Competition in the service industries is primarily domestic, but the competitive danger is the same, he observes. "In the drive toward survival, the companies that put cost savings and quantity before service will be at a disadvantage."

—ARLENE HERSHMAN
WITH MIRIAM ROZEN

Pension Plans: Problems of Plenty

In a highly controversial trend, many companies are terminating overfunded plans and putting the money to other uses.

It was not very long ago that the biggest worry about corporate pension plans was unfunded liabilities. So many companies did not have enough cash stashed away to cover their potential payouts to retirees that it seemed likely they would eventually pass on a huge bill to the federal government's meagerly funded Pension Benefit Guaranty Corp. (PBGC).

Now, rather suddenly, the problem is almost exactly the reverse. Many pension plans are overfunded, for several reasons. For one, recession-induced layoffs left many companies with more accumulated pension money than needed. For another, high interest rates gave them a far better return on pension plan assets than expected. And more recently, the boom in bonds and stocks has enriched a lot of pension plans.

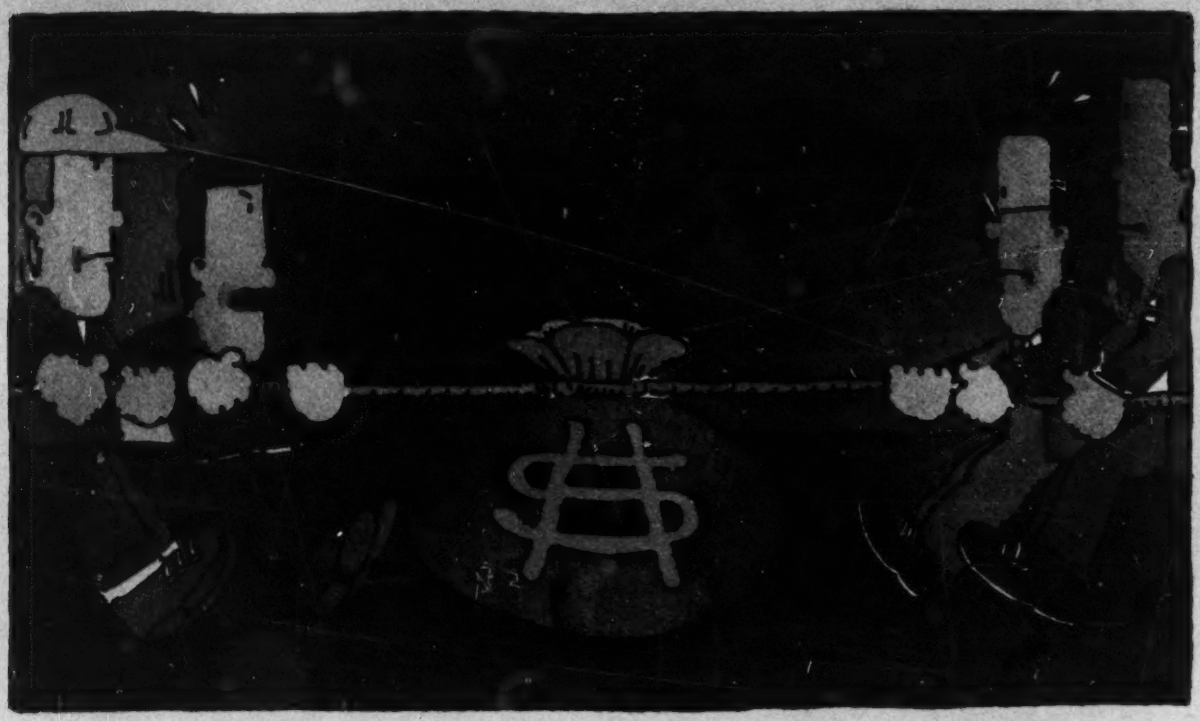
As a result, many companies are discovering that they have tens or even hundreds of millions of dollars more in pension fund assets than they will need to pay off their anticipated obligations. The situation is both a potential risk and a bonanza. The risk is that all that excess cash will invite a takeover by a greedy raider. The bonanza is that companies hungry for cash find they can siphon off millions in excess pension assets for other corporate purposes by terminating their pension programs and then setting up new plans that are usually less generous.

A surprising amount of pension fund assets are being diverted in this way. Since 1980, according to the PBGC, more than 100 U.S. companies have terminated their pension plans, substituted new ones and pocketed a total of $443 million. Add to that the many other terminations that are awaiting approval or are still tied up in lawsuits brought by angry employees, and the total money involved adds up to well over $1.5 billion.

Not surprisingly, the issue has aroused heated debate, both in the business world and in Washington.

Debating the issue

When the House Select Committee on Aging held hearings on pension plan terminations last fall, most of the experts who testified were clearly critical. Michael Gordon, the Washington lawyer who is considered the father of the Employee Retirement Income Security Act (ERISA), warned, "There has grown up in this country a veritable cottage industry whose primary function is to show corporate pension plan sponsors how to get



around ERISA so that they can convert funds to their own use."

And Wilbur J. Cohen, former Secretary of Health, Education and Welfare and now a professor at the LBJ School of Public Affairs, told DUN'S BUSINESS MONTH: "Pension plan termination is bad for the workers involved, bad for a company's reputation, bad for everybody."

But the practice also has a vociferous minority of defenders. Howard Fluhr, senior vice president and actuary with consulting firm Martin E. Segal Co., asserts that companies, after all, also have some rights. He further points out that under the terms of ERISA, any company that ends its pension plan is required to provide every member with his or her accrued benefits, whether or not the employee is vested. The companies also have to demonstrate to the PBGC that they have purchased annuities to meet the needs of plan members, he explains, "so a company cannot steal part of the money in the process."

Indeed, some companies defend pension-fund terminations on the ground that employees themselves gain in the process. Says R. Bern Crowl, executive vice president of Reynolds Metals Co., which is now awaiting PBGC approval to end its pension plan for salaried employees: "There is an awful lot of emotion about plan termination and not enough attention given to gains and losses."

Reynolds itself expects to recapture $130 million from the termination, and employees gain in two ways, according to Crowl. "When the plan ends, they will all be vested automatically, and a lot of them might never have been otherwise," he explains. "And from then on, they will have the protection of insurance-company annuities."

Critics, however, point out that such an arrangement takes care of only the past, not the future, and denies an employee's reasonable expectations. "If a fellow at 55 is making $30,000 a year, he expects salary increases from then until he is 65 to step up his pension," says Douglas Borton, chief actuary of Buck Consultants, employee benefit specialists. "But if the plan is terminated, that won't happen, and he is simply out of luck."

Other experts point out that if a company ends a defined (guaranteed) benefit plan and replaces it with some kind of plan based on company contributions that will probably fluctuate from year to year, it offers no guaranteed payout and shifts the investment risk to the employee.

The reasons for plan termination, of course, have varied from company to company. For instance, publishing firm Harper & Row was worried

The rationale

about a possible takeover in 1981. To defend itself, it ended a defined benefit plan and replaced it with an Employee Stock Ownership Plan (ESOP) based entirely on company stock in order to get the shares into presumably friendly hands. However, many employees felt their future security would be jeopardized by dependence on a one-stock plan, and they have been fighting the company in court ever since.

The Great Atlantic and Pacific Tea Co. ended its overfunded plan for the express purpose of using the extra money to close down a number of stores, a step it said was essential to its survival. A&P originally recap-

tured $250 million in assets in this way. But one high-placed executive sued, arguing that the money belonged to the plan participants alone. An out-of-court settlement gave the company $200 million of the money, pension plan members the other $50 million. But now that settlement has been appealed to a higher court.

In a third variation on the basic theme, Occidental Petroleum, after its $4 billion acquisition of Cities Service Co., ended four separate pension plans and pocketed $400 million, presumably to help pay for the acquisition. But it has not yet received PBGC approval.

Underlying the furor over pension plan termination is the basic question: Whose money is it, anyway? Some specialists argue that since it was put aside solely to benefit employees, it all belongs to them.

Others argue that companies should be entitled to remove excess assets and put them to more productive use. Troubled GAF Corp., for example, ended its pension plan recently in order to recover $40 million it felt it badly needed. The company was sued but finally upheld in court. Says Dean Gaver, the lawyer who won the case for the company: "Management saw this essentially unproductive money sitting there and thought it should be put to better use. The officers of a company, after all, have a dual fiduciary duty—to stockholders as well as to employees."

But concern about the ethics of pension plan termination—and its impact on employee morale—is growing, particularly in Congress. At the House Select Committee on Aging hearings, spokesmen for the Labor Department and the Internal Revenue Service —which have had continuing differences among themselves about how to interpret and enforce ERISA—in effect told the committee that nothing need be done right now to deal with the problem. But committee counsel Roger Thomas says its members are very much disturbed at the prospect that company employees may not get what they have been promised at retirement because of plan terminations.

Committee members are particularly disturbed by what they consider the lack of any constructive action by the administrative agencies, especially the Labor Department, to improve the situation. After investigating the Harper & Row case, for example, Labor decided not to intervene on the ground that the company's action was a business decision, not a fiduciary one. Thomas insists that argument is too legalistic and narrow.

Amid the give and take, Edwin Jones, executive director of the PBGC, is particularly concerned about a relatively new variant on pension termination: the so-called spinoff, which has been proposed recently by AMAX Corp. and Celanese Corp., in efforts to recapture $100 million and $300 million respectively. This would let a company divide one pension plan into two—one for active employees, the other for retirees. First the accrued benefits for the active workers would be covered and the excess assets would be put in the retiree plan. Then the retiree plan would be terminated immediately, and the employer would buy annuities for the retirees and pocket the surplus. Jones worries that such a process would leave no cushion for the active employees. If the company got into financial trouble, he fears, the PBGC would be expected to foot the pension bill.

Too risky?

Jeffrey Clayton, who retired in November as the chief pension administrator for the Labor Department, has urged companies to begin showing some voluntary restraint in plan termination. There is, after all, nothing to prevent a company whose plan is overfunded from simply making smaller contributions for a few years until the surplus is reduced.

But many critics insist that, with the federal agencies doing little, only Congress can effectively deal with pension plan termination. In the latest session, in fact, Democratic Senator Howard Metzenbaum of Ohio tried, without success, to impose a nine-month freeze on terminations involving company recapture of $1 million or more.

There will undoubtedly be more ambitious attempts at legislation this year, perhaps even to permanently ban terminations. But most pension specialists are highly critical of any such "blunderbuss" law, as one calls it. No company is required by law to maintain a pension plan, and if terminations were banned, they believe, an increasing number of companies would either forgo plans altogether or make sure they were minimally funded. As Michael Gordon observes: "What we need to do is find some way to assure the continuation of pension plans, not their termination."

—JOHN PERHAM

Big Bucks at Stake

The surplus assets involved in pension plan terminations already exceed $1.5 billion. Some of the largest amounts recaptured, or being sought, by companies:

Company	Amount Recaptured (millions)
Occidental Petroleum*	$400
Celanese*	300
Great American and Pacific Tea*	200
Reynolds Metals*	130
AMAX*	100
Stroh Brewery*	81
AM International*	65
M.W. Kellogg	58
GAF	40
Western Air Lines	28
Graniteville*	25
Timex	21
Houdaille Industries	21
Continental Air Lines	19
Questor	13
Lane Bryant	12
Mattel*	12
Bank of the Commonwealth	12
Dentsply International	11
A.G. Becker	11
Harper & Row Publishers*	10
Dan River*	10
Norlin*	10

*Awaiting final approval.

The New Year Looks Good

The latest D&B survey of business expectations shows that managers are upbeat, but a bit cautious about 1984. Plans for inventories and prices are surprising.

Business executives are optimistic about 1984—but not euphoric, according to the latest DUN'S 5000 survey of expectations. The survey, which had a remarkable 85% response rate from those queried, represents all sectors of corporate America. The results show that, in spite of 1983's big gains in sales and economic growth, most managers are taking a cautious approach toward the New Year.

Higher sales are anticipated by 77% of the executives interviewed and only 5% see lower sales. But a smaller number, 65%, think these sales gains will lead to higher profits. About 25% expect profits to remain at the 1983 level—which still is upbeat, since last year's earnings were generally good.

One interesting finding of the survey is that only 37% of the DUN'S 5000 sample expect to increase inventories this year. There's no evidence at this time that managers will respond in time-honored fashion and increase inventories as orders and sales go up. A full 57% plan to keep inventories at current levels, which by historic standards are very low.

As for employment, last year's survey correctly predicted large job gains thanks to the hiring plans of small firms. This year, however, large companies are more optimistic about hiring. The survey shows that 44% of firms with more than 5,000 workers expect to add jobs, but only 30% of small establishments with fewer than twenty workers see higher employment.

The question is whether or not this year's hiring action by big firms will equal the total employment gains of 1983. The next DUN'S 5000 survey, which will focus on specific changes in employment plans, should shed more light on the job outlook.

Inflation will also be moderate this year, according to the chief financial and executive officers interviewed. Almost 40% think their prices will remain the same—a surprisingly high percentage given the likelihood of continued recovery.

—JOSEPH W. DUNCAN

Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.

OPTIMISM INDEX

Business managers are very bullish about sales in 1984, but not as upbeat about employment, according to the latest Dun's 5000 survey. The following optimism index is a measure of those companies that expect sales, profits, employment and prices to be better next year, minus the companies that expect these things to be worse. Those with an unchanged outlook compared to last year are not included.

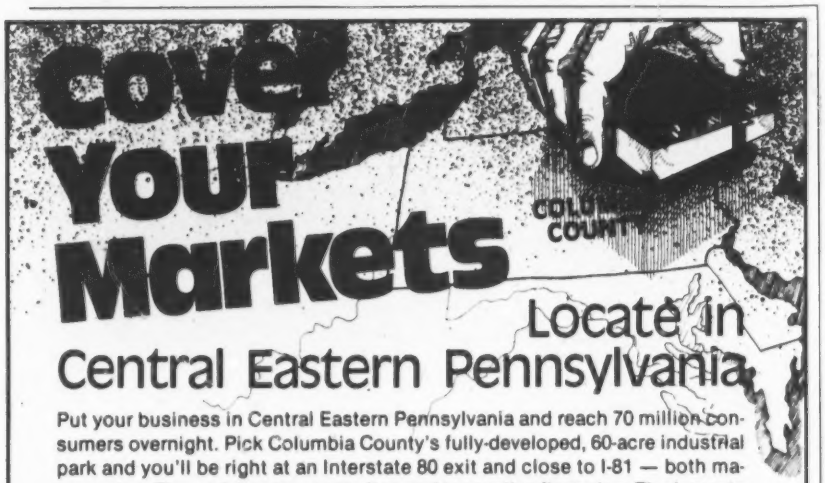
SIZE OF FIRM	SALES	PROFITS	EMPLOYMENT	PRICES
	(% INCREASE MINUS % DECREASE)			
1-19 workers	63.7	53.4	25.2	44.6
20-99	65.2	56.9	34.5	52.3
100-499	71.9	52.7	29.3	53.2
500-999	73.5	45.7	28.5	52.7
1,000-2,499	76.0	40.1	16.3	64.7
2,500-4,999	79.9	59.5	25.7	60.1
5,000 plus	83.6	71.8	34.1	65.7

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(11/30/83) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$20.87/share	$10,229	$12,412
per cent change		+2.3%	+24.1%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$100.25	$10,145	$ 9,703
ACCUMULATED INCOME		$ 99	$ 92
TOTAL		$10,244	$ 9,795
per cent change		+2.4%	−3.1%
Money Market Fund	8.55%	$10,070	$10,854
per cent change		+ .70%	+8.5%
Gold (Krugerrands)	$421.75/oz.	$10,663	$ 9,099
per cent change		+6.6%	−9.1%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$77,400	$78,800	$70,800
per cent change		−1.8%	+ 9.5%
New House	$98,800	$ 95,800	$97,900
per cent change		+3.0%	+ .91%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.



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ness in a way that appeals to Corneliuson. By getting out of CIT Financial and Gibson Greeting cards, he believes, the company is coming closer to its core businesses. "When it comes together, RCA will be in electronics, defense and communications, and these three businesses will be valued at a market P/E," he says.

Corneliuson is ambivalent about Hertz auto rental. On the negative side, it makes RCA tougher to analyze; but positively, it has enormous earnings potential, especially this year. He figures that the liquidation value of RCA's assets are $65 a share, while the stock has been selling recently at around 34. Corneliuson estimates that the company will earn $3.50 a share this year, up from an estimated $2.05 in 1983. For 1985, he sees another big gain to $4.50.

Corneliuson also likes K mart, which he considers a classic example of a retailer that, having disappointed investors in recent years, will now surprise them with unexpected earnings gains. The company has very attractive long-term leases on its stores. These, along with its management program for redeploying assets, reconfiguring store layouts and upgrading merchandise, should help earnings, he says. He figures earnings per share will come in at $3.70 for the fiscal year ending January 31 and rise to $5.25 the following year. With the stock recently trading at 34, he sees it as a worthwhile investment that could sell at ten times earnings.

Another company with disappointing earnings that is poised for improvement is Beatrice Foods, according to Corneliuson. Since a management change in 1979, the company has been selling off many of its hundreds of small businesses. Corneliuson says it will raise $400 million in cash through these dispositions; in addition, it has used little of its $75 million reserve for potential losses on these sales. He expects much of this money to be used to pay down debt and repurchase shares. Corneliuson expects earnings per share to reach $3.30 in the current fiscal year (ending February 28) and advance to $4.25 next year. The stock recently traded at 32. —A.H.

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Cutting Legal Costs

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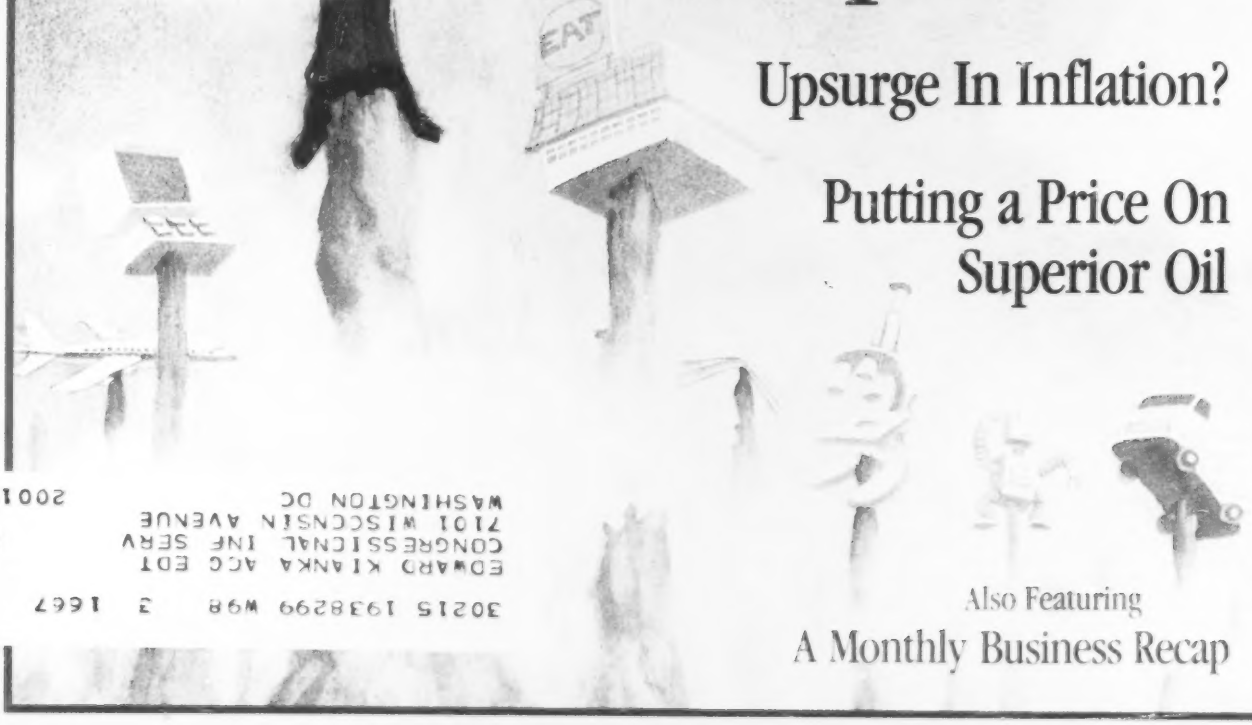
A New Heyday for Entrepreneurs

Upsurge In Inflation?

Putting a Price On Superior Oil



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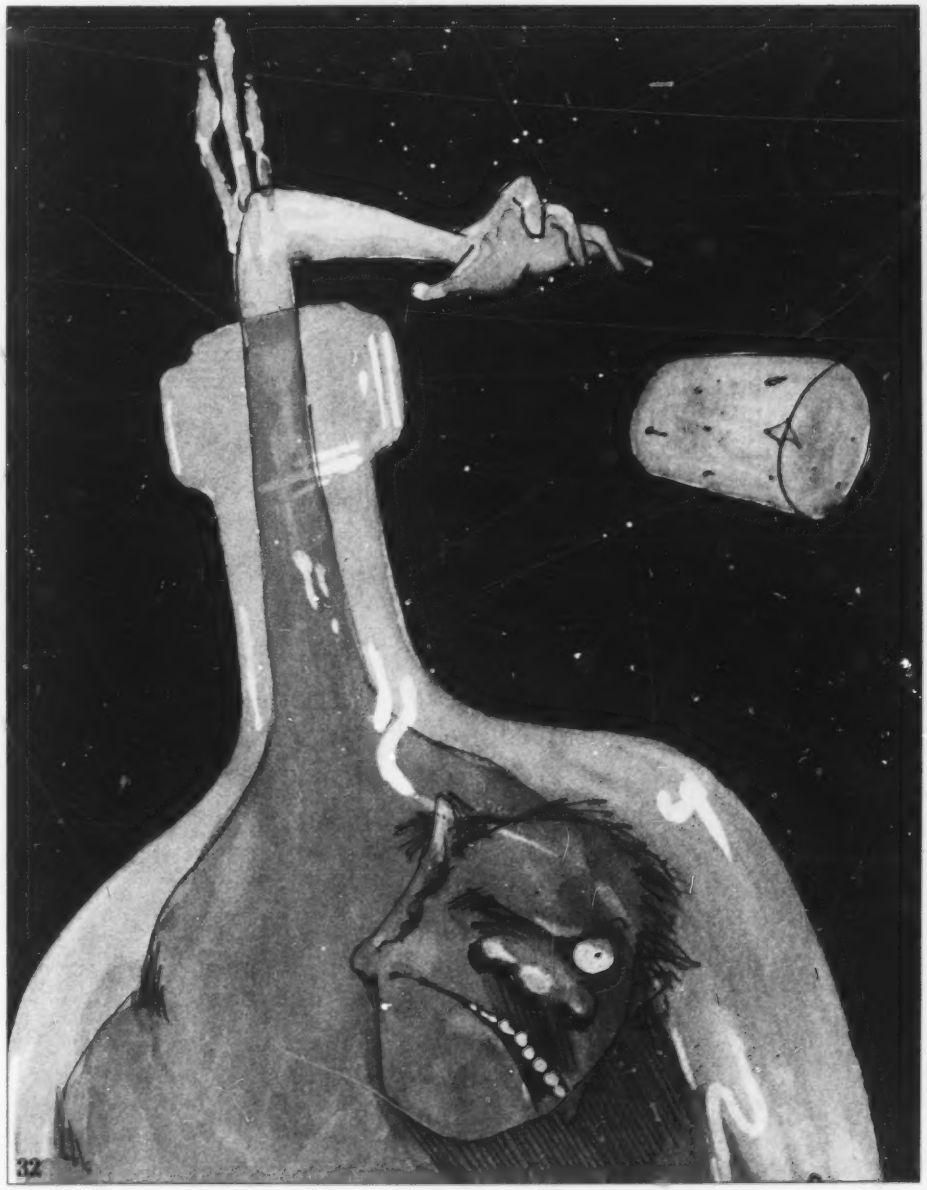

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Inflation: Will the Monster Reappear in 1984?

Today's modest rate will more than double by year-end, say some influential economists. Pressures from wages, the dollar and the Fed.

The rise in the Consumer Price Index last year was only a bit over 3%—an eleven-year low—and the consensus among economists is that inflation will remain in a modest 4.5%-to-5% range during this second year of recovery. The official Administration forecast for this election year is for a 4.5% uptick.

But there is a minority of influential economists who dissent sharply from this sanguine view and who believe that inflation will be in the 6%-to-8% range by year-end. And if that happens, the inflationary psychology could be so pervasive that the price push could be back in the double-digits in 1985.

The inflation monster will soon emerge from the bottle, they maintain, because of wage pressures in prosperous industries, a decline in the recently soaring dollar and, most important, an expansionary monetary policy. "Rapid money growth has spurred one of the strongest recoveries in the non-farm economy since World War II," says Jason Benderly, chief economist of The Prudential Life Insurance Co. "And rapid money growth has always been followed by rapid inflation."

Both the Citicorp and the Kemper Financial Services forecasts say the inflation rate could hit 7% by year-end; and the well-respected "leading index of inflation" developed by Geoffrey H. Moore of Columbia University's Center for International Business Cycle Research recently registered a sharp rise. "It suggests inflation of around 7% by the middle of 1984," maintains Moore. Indeed, the index points to a rate as high as 9% by the fourth quarter, although Moore doubts it will go quite that high.

Most significantly, 1984 will be a big bargaining year for major unions—most notably in the newly-recovered auto industry. As the orders roll in and profits soar, many experts believe labor will insist on "getbacks" to make up for recession-induced "givebacks." Other healthy or improving industries in which labor is likely to flex its muscles include aerospace, telecommunications, paper and electrical equipment. Moreover, business—at least in the prosperous industries—is expected to play a similar game of catch-up on prices.

"Getbacks" after "givebacks"

Meanwhile, fear of a major strike in an election year means the White House might quietly lean on management to acquiesce to labor's demands. In any case, the *laissez-faire* Reagan Administration has no intention of actively jaw-boning for wage restraint.

While unemployment (recently 8.2%) will remain relatively high for the second year of a recovery, the composition of the jobless numbers—high among the unskilled and the young, low among skilled workers and married males—means that there could be upward wage pressures due to shortages of the highly skilled.

"The unemployment rate of adult married men has dropped 30% during the past nine months and is now halfway back to full employment," the Kemper forecast points out. And there are already bottlenecks in the labor market for engineers and others who work in strong sectors such as aerospace and telecommunications.

"Wage increases will strictly depend on the demand for a product," says economist Mickey Levy of Philadelphia's Fidelity Bank. "If managers think they can pass along the higher operating costs, they'll go ahead and grab workers at higher wages." And a

AS THE MAJORITY SEES IT

In sharp contrast with the minority of economists who foresee an upsurge in inflation next year, Wharton Econometrics Forecasting Associates expects only a modest rise in prices—4.8% for the Consumer Price Index and 4.2% for the Producer Price Index. Here are Wharton's forecasts for the rise in specific consumer and industrial prices:

Transportation	7.3%	Paper and Pulp	5.2%
Financial, Insurance and Real Estate	6.7	Entertainment	4.9
Iron and Steel	6.4	Electrical Machinery	4.6
Drugs, Soap and Toiletries	5.8	Food and Beverages	4.5
Medical Care	5.8	Industrial Chemicals	4.5
Apparel and Upkeep	5.6	Residential Construction	3.9
Housing	5.4	Tires and Tubes	3.7

recent Kemper analysis points out that workers in depressed sectors, who might be willing to hold the line, represent less than 5% of total employment. Moreover, capacity utilization is close to crossing the inflationary 80% mark. The upshot will be a slowdown in productivity increases from 1983's 4%-to-5% range to a 2%-to-3% rate, which means that to maintain profits companies will have to resort to price increases, the Kemper economists conclude.

As for the dollar, experts such as Brookings Institution economist Lawrence Krause are warning that the greenback is riding for a fall because it is so overvalued. Krause does not believe that the drop will be precipitous. But if the plunge is dramatic, inflation would soar—first, because the price of imports would increase; and second, because a weak dollar would spur foreign demand for U.S. products, enabling companies to raise prices and spurring demands for wage hikes. Perhaps even worse, it would mean a mass exodus of the foreign money that has made it easier for the Treasury to finance a $200-billion federal deficit. If the Treasury has difficulty marketing this massive load of federal paper, the Fed might be tempted to monetize it by increasing the money supply, which would mean still more inflation down the road.

Exodus of foreign money?

Even without the Treasury's debt problem, the Fed is likely to ease its policy in an election year to avoid the risk of another recession, in Benderly's view. The Prudential economist is also worried about the central bank's apparent abandonment of its post-1979 policy of monetarism in favor of interest rate targeting. This, he believes, could also fan the inflationary fires.

Those who maintain that inflation is not a danger over the near-term contend that the economic landscape has changed so dramatically that another massive price push is practically impossible. They cite the high jobless rate, the threat of world competition, widespread deregulation and the painful lessons learned during the past recession as reasons why prices will stay subdued.

Economist Edward Guay of Cigna Corp. actually foresees "zero inflation" by 1987 because he is convinced the Fed will not cave in to political pressures to stimulate the economy's growth prior to the election. And consulting economist Morris Cohen, who was one of the few forecasters to foresee the strength of the current recovery, believes "the Fed will hang tight" and that "interest rates will go down at the end of the year instead of up."

Price rises will also be deferred by the relatively high rate of joblessness. "We believe inflation will decelerate to 3%-to-3.5% by late 1984 because of vast slacks in the labor market," says David A. Levine of Bernstein Economic Research. "As long as unemployment is above 7%, there will be continued downward pressure on wages and prices," he says. It is unlikely that the 7% jobless barrier will be broken before 1986, Levine adds.

The trend of slow or no-wage growth will be especially true for deregulated industries such as airlines and trucking and for deeply-depressed sectors such as steel and farm equipment, others point out. This outlook for lower labor costs means increased productivity, which has grown at a gratifying 4%-to-5% rate during most of the past year.

Still another factor, say the optimists, are the deep scars left by the 1981–82 recession. "American management has been harshly disciplined," contends Conference Board labor economist Audrey Freedman. "Corporate survivors are not going to revert to inefficient operations now. Clearly, there will be no wage explosion in 1984 even as the recovery continues." Morris Cohen makes the same point: "The big difference is that we have just been through a very long, long recession," he maintains. "Memories used to be short about economic ups and downs, but no one is going to forget what we've been through in the past few years."

Recession's scars

The inflation debate is reminiscent of the pre-recovery days, when most economists were convinced that 1983 growth would be sluggish. Then, as now, a handful of experts took a look at past events and came to the opposite conclusion—that, as always, the first year of recovery would be typically robust. And now the minority says that, as in the past, inflationary pressures will boil up in this second year of recovery. "Fasten your seatbelts again," warns the Citicorp forecast.

—MARILYN WILSON

Business Failures: Is the Rise Over?

A new Dun & Bradstreet index shows an increase in 1983's second half. The problem is mostly with small business, but things are looking better.

The number of enterprises that went out of business declined during the second quarter of 1983, but increased in the second half, according to a new Dun&Bradstreet index that provides a quarter-by-quarter comparison. Nevertheless, a closer look at the fourth quarter suggests that the recovery is having a positive impact on the rate of business failures, especially on firms with large liabilities. The accompanying table shows that the number of failing firms with high levels of outstanding liabilities declined in the second half of the year. However, financial pressures were still evident for smaller firms.

During the fourth quarter, the number of business failures was essentially flat. This may have resulted from a December decline, a typical seasonal pattern, since many firms on the edge of failure hang on until the end of the year hoping that Christmas business will bail them out.

It's also important to note that bankruptcy is often a strategic tool that many firms now use for non-economic reasons. And the fact that personal bankruptcy is now more socially acceptable is bound to have a spillover effect on very small firms as well. Thus it is possible that company shutdowns may not really reflect business conditions.

All other indicators show that corporate balance sheets have improved dramatically since 1982, and thus 1984 should see a drop in business failures.

—JOSEPH W. DUNCAN

Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.

BUSINESS FAILURE INDEX

A new index has been developed by Dun & Bradstreet to show how business failures compare quarter by quarter. As the following table shows, the index rose in the last quarter, but this was largely due to small-business failures.

1983 QUARTER	BUSINESS FAILURES REPORTED	% CHANGE DURING QUARTER	AVERAGE WEEKLY FAILURES	FAILURES* INDEX
FIRST	7,733	+14.2%	595	94.7
SECOND	7,404	−4.3	570	90.7
THIRD	7,915	+6.9	609	97.0
FOURTH	8,282	+4.6	637	101.5
TOTAL	31,334		603	96.0

*(October = 100)

FAILURES BY SIZE AND INDUSTRY

The failure rate for large businesses, with liabilities of $100,000 and more, dropped during 1983, while the failures of businesses with smaller liabilities grew. Among industries, the drop-out rate slowed in construction, manufacturing, transportation and utilities, and retail trade.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
TOTAL FAILURES	7,733	7,404	7,915	8,282
BY LIABILITIES:				
$100,000 and Over	53.9%	53.1%	44.7%	45.0%
Under $100,000	46.1	46.9	55.3	55.0
BY INDUSTRY:				
Mining	2.1%	2.1%	2.1%	2.3%
Construction	17.0	17.9	15.6	15.4
Nondurable Manufacturing	4.2	4.3	4.1	4.1
Durable Manufacturing	8.1	7.4	7.6	7.7
Transportation and Utilities	5.6	5.9	4.8	4.7
Wholesale Trade	10.7	11.4	11.7	11.8
Retail Trade	34.3	33.6	32.2	31.5
Finance, Insurance & Real Estate	N.A.	N.A.	N.A.	N.A.
Service	17.9	17.4	21.8	22.9

flow. National Commercial Banking of Australia, one of the three big banks in Australia, is the cheapest bank stock in the world, according to Templeton. It is trading at two-and-a-half times its 1986 earnings. Sumitomo Marine & Fire Insurance Co. of Japan is selling for only 27% of its liquidating value.

—A.H.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(12/30/83) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$19.70/share	$ 9,936	$12,129
per cent change		−.61%	+21.3%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$99.00	$ 9,875	$ 9,161
ACCUMULATED INCOME		$ 97	$ 90
TOTAL		$ 9,972	$ 9,251
per cent change		−1.2%	−7.5%
Money Market Fund	8.69%	$10,073	$10,858
per cent change		+ .73%	+8.6%
Gold (Krugerrands)	$404.00/oz.	$ 9,579	$ 8,600
per cent change		−4.2%	−14%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$77,300	$77,700	$71,600
per cent change		+5.1%	+ 7.3%
New House	$93,100	$98,000	$91,800
per cent change		−5.2%	+ 1.4%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

IRS Gets Tougher on Art Collectors

Art collectors are probably no more or less honest than anyone else. They want to pay as few taxes as possible and declare every deduction in sight. Traditionally, the Internal Revenue Service paid little attention to this hard-to-evaluate area. But it has become somewhat stricter in the past few years, and it recently began a crackdown on some abuses.

Most important, it is taking a much closer look at the reporting of capital gains from the sale of art works. Under the 1982 Tax Reform Act, commodities and securities brokers are required to report to the government every transaction involving a sale of assets. Now the definition of "broker" is being expanded to include art dealers and auctioneers.

The move does not come as a complete surprise, since the IRS has been making random checks at auction houses and galleries for the past two years. But most art dealers claim they do not know the extent of the problem. "The IRS came to look at our books," says Nathan Kolodner, director of the Andre Emmerich Gallery in Manhattan, "and I suspect that some people are not reporting their capital gains. But it would never occur to me to ask." Adds Ivan Karp, owner of the O.K. Harris gallery, "I know of one man who said he didn't pay the capital gains, but I have never heard anyone else talk about it."

Another area in which the government appears to be getting tougher is deductions for "investing" in works of art. The concept of an investor in the art world—as opposed to a collector or a dealer—is rather nebulous, and some people have attempted to take advantage of the fuzzy IRS language to claim deductions for such expenses as framing works of art, insuring, storing, conserving and cataloguing them and even for buying trips abroad.

Someone claiming to be an art investor, Chairman Wiley Grant of the IRS's Art Advisory Panel has said, must state on a document that his or her interest in art is purely as an investment and must also consult occasionally with experts and subscribe to the relevant periodicals. But that definition probably fits most art collectors, who "consult" with dealers on purchases and generally subscribe to the major art magazines.

In a more clear-cut ruling, the U.S. Tax Court has firmly established that an investor cannot have art works in his home or office, and thus derive pleasure from them, but must warehouse them elsewhere. Most so-called investors are really just collectors, the court feels, and a collector is a hobbyist and therefore not entitled to any deductions.

On the bright side, however, the rules covering tax deductions for people who volunteer their time to museums appear to be loosening. In one form of tax break, the standard gas mileage deduction has been increased from 9 cents to 21 cents (making it equal to the amount allowed for business-related travel) in several states, and Maryland Congresswoman Barbara Mikulski has introduced a bill to make the same change at the federal level.

In addition, the Tax Court has reversed an IRS ruling that disallowed a home-care deduction for babysitting expenses claimed by a museum volunteer. It is too early to tell whether that decision established a precedent.

—DANIEL GRANT

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IRS vs. Accountants

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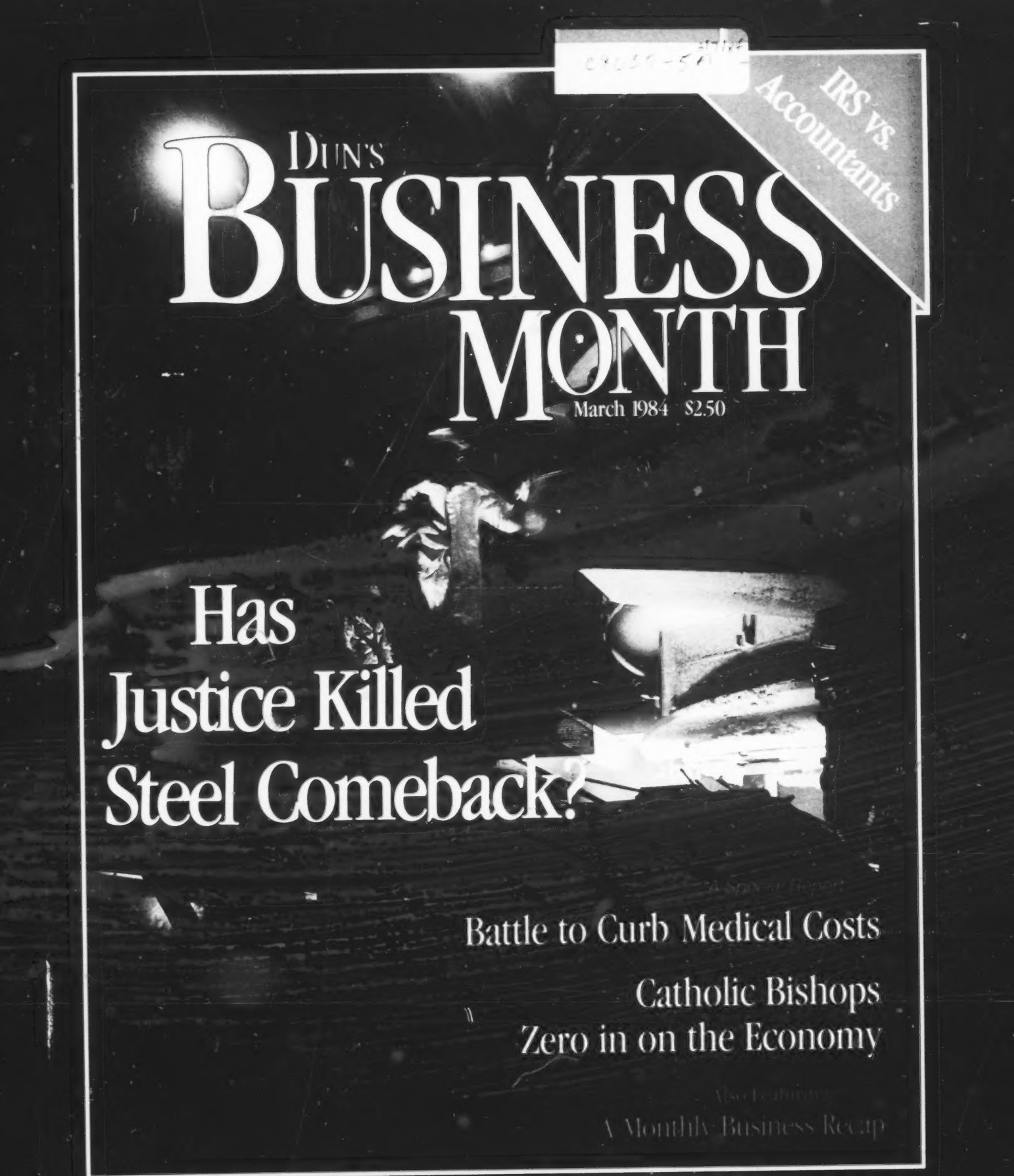

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